

## Message Text

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ACTION EUR-12

INFO OCT-02 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-06 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 PA-02 PRS-01 H-02 L-03 /102 W  
-----013500 252332Z /70

R 252155Z JAN 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 6096  
INFO AMCONSUL MONTREAL  
ALL OTHER CONGENS IN CANADA BY POUCH

UNCLAS SECTION 01 OF 02 OTTAWA 00390

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A  
TAGS: ECON, EFIN, CA  
SUBJECT: RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

1. SUMMARY. GOC POLICY OF FISCAL AND MONETARY RESTRAINT, RECENTLY REITERATED BY PRIME MINISTER TRUDEAU AND FINANCE MINISTER CHRETIEN, HAS RECEIVED SUPPORT IN BUSINESS COMMUNITY. TAX CREDIT TO STIMULATE EMPLOYMENT PROPOSED IN OCTOBER 20 MINI BUDGET WAS INTRODUCED IN COMMONS. LATEST INDICATORS REFLECTED MIXED GROWTH PERFORMANCE. CONFERENCE BOARD DEC. 1977 PROVINCIAL FORECASTS POINTS TO FASTER GROWTH IN 1978 THAN IN 1977 IN ALL PROVINCES EXCEPT MANITOBA. CONSUMER CONFIDENCE IS UP, REVERSING DOWNWARD TREND. SEASONALLY ADJUSTED MONEY SUPPLY ROSE SHARPLY IN DECEMBER, BUT DROPPED BACK QUICKLY IN EARLY JANUARY. LONG AND SHORT TERM INTEREST RATES ESSENTIALLY STABLE. PROVINCE OF MANITOBA TO FLOAT BOND ISSUE IN JAPAN. AVERAGE CANADIAN/U.S. DOLLAR EXCHANGE RATE WAS .9073 IN WEEK ENDING JANUARY 20 COMPARED WITH .9097 PREVIOUS WEEK. END SUMMARY.

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2. DOMESTIC DEVELOPMENTS. IN JANUARY 18 MEETING WITH GROUP OF TOP BUSINESS EXECUTIVES, PM TRUDEAU SOUGHT AND RECEIVED SUPPORT FOR CONTINUED MONETARY AND FISCAL RESTRAINT. ON PREVIOUS DAY, FINANCE MINISTER CHRETIEN TOLD CANADIAN CLUB OF TORONTO THAT GOC HAD "NOTHING FURTHER" TO OFFER IN WAY OF TAX CUTS. SO FAR, GOC IS APPARENTLY RELYING ON TAX CUTS ANNOUNCED IN OCTOBER, STIMULATIVE EFFECT ON FOREIGN BALANCE

OF CANADIAN DOLLAR DEPRECIATION AND CONTINUED BUOYANCY OF CONSUMER DEMAND TO CARRY THE ECONOMY AT LEAST THROUGH MID-1978.

3. GOC HAS INTRODUCED INTO HOUSE OF COMMONS EMPLOYMENT TAX CREDIT ORIGINALLY PROPOSED IN OCTOBER 20 MINI BUDGET. CHRETIEN DESCRIBED MEASURE AS FRANKLY EXPERIMENTAL PROGRAM DESIGNED TO CREATE MAXIMUM NUMBER OF JOBS WITH MINIMUM EXPENSE AND AS METHOD OF STIMULATING EMPLOYMENT WITHOUT FURTHER ESCALATION OF INFLATION. PROGRAM WILL COST AN ESTIMATED CDOLS 100 MILLION A YEAR IN TAX REVENUES FOREGONE. IT IS SCHEDULED TO BECOME EFFECTIVE MARCH 31 AND TO RUN FOR TWO YEARS, AFTER WHICH IT WILL BE REVIEWED FOR EFFECTIVENESS. GOC HOPES TO CREATE AN ADDITIONAL 50,000 JOBS IN FIRST YEAR OF PROGRAM. TAX CREDITS WILL BE SCALED TO HAVE RELATIVELY GREATER IMPACT IN REGIONS WITH HIGHEST UNEMPLOYMENT. MAXIMUM TAX CUTS (CDOLS 2.00 PER HOUR PER NEW EMPLOYEE) WILL BE IN ATLANTIC PROVINCES AND IN GASPE REGION OF QUEBEC. AS ANNOUNCED IN OCTOBER, GOC PLANS EXPENDITURE CUTS OF CDOLS 100 MILLION TO COMPENSATE FOR REDUCTION IN REVENUE DUE TO TAX CREDIT.

4. RECENT INDICATORS OF GROWTH PERFORMANCE ARE MIXED. NEW FACTORY ORDERS TOTALLED CDOLS 9.34 BILLION IN NOVEMBER, DOWN 2.3 PERCENT FROM OCTOBER LEVELS. SHIPMENTS FELL 2.5 PERCENT TO CDOLS 9.32 BILLION. MAIN WEAKNESS IN NEW ORDERS  
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AND IN SHIPMENTS WAS IN DURABLE GOODS AND PROBABLY REFLECTS SLACK AUTOMOBILE DEMAND. RATIO OF OWNED INVENTORIES IN MANUFACTURING TO SHIPMENTS STOOD AT 1.99 IN NOVEMBER COMPARED WITH OCTOBER LEVEL OF 1.91 AND HISTORIC AVERAGE LEVEL OF ABOUT 2.0.

5. REAL DOMESTIC PRODUCT EXPANDED BY 0.6 PERCENT TO 129.1 AFTER 0.2 PERCENT RISE IN OCTOBER. INDEX STANDS 2.6 PERCENT ABOVE LEVEL OF NOVEMBER, 1976. OUTPUT OF MINES, QUARRIES AND OIL WELLS INCREASED BY 1.9 PERCENT, WHILE MANUFACTURING ACTIVITY ROSE BY 0.2 PERCENT. WHOLESALE AND RETAIL TRADE EXPANDED BY 1.8 PERCENT REFLECTING STRENGTH OF CONSUMER SPENDING.

6. CONFERENCE BOARD INDEX OF CONSUMER CONFIDENCE INCREASED FROM 83.5 TO 93.2 BETWEEN THIRD AND FOURTH QUARTERS OF 1977, AN INCREASE OF 11.6 PERCENT. SINCE INDEX NORMALLY SHOWS A DECLINE IN CONSUMER OPTIMISM IN FOURTH QUARTER, RISE WOULD BE EVEN GREATER ON SEASONALLY ADJUSTED BASIS. RISE IN INDEX REVERSED YEAR-LONG TREND OF DECLINING CONSUMER CONFIDENCE. LEVEL OF INDEX IN FOURTH QUARTER WAS AT ITS HIGHEST SINCE SECOND QUARTER OF 1974.

7. CONFERENCE BOARD'S DECEMBER PROVINCIAL FORECAST FORE-  
SEES FASTER GROWTH IN 1978 THAN IN LAST YEAR IN ALL PROV-  
INCES EXCEPT SASKATCHEWAN WHERE REAL AGRICULTURAL PRODUCTION  
EXPECTED TO FALL BY 10 PERCENT. DESPITE FORECASTS OF  
ACCELERATION IN GROWTH, CONFERENCE BOARD PROJECTS RISE IN  
UNEMPLOYMENT IN ALL PROVINCES. GROWTH OF REAL DOMESTIC  
PRODUCT IN QUEBEC FORECAST AT 4.5 PERCENT, JUST BELOW 4.7  
PERCENT NATIONAL AVERAGE.

8. EXTERNAL DEVELOPMENTS. IN SPEECH BEFORE TORONTO BOARD  
OF TRADE, FORD CANADA PRESIDENT BENNET UNDERLINED SIGNIFI-  
CANT BENEFIT TO CANADA WHICH COULD RESULT FROM MASSIVE

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CAPITAL EXPENDITURES BY AUTO COMPANIES OVER NEXT SEVERAL  
YEARS. BENNET WAS OPTIMISTIC THAT STRUCTURAL CHANGES COULD  
BE MADE WHICH WOULD MAKE CANADA AN ATTRACTIVE LOCATION FOR  
NEW PLANTS. BENNET ADDED THAT IT WOULD BE "LOGICAL" TO  
BUILD SOME NEW PLANTS IN CANADA, BUT THERE COULD ALSO BE  
DISADVANTAGES TO THIS COURSE OF ACTION. FORD PLANS TO HOLD  
FURTHER DISCUSSIONS WITH GOC ON LOCATION OF FUTURE INVEST-  
MENTS.

9. FINANCIAL ISSUES. CHARTERED BANKS HAVE BEEN CRITICIZED  
OF LATE, MOST NOTABLY BY RAFFAEL MAIR, B.C. MINISTER OF CON-  
SUMER AND CORPORATE AFFAIRS, FOR ACTING IN VIOLATION OF  
PROVINCIAL LAWS AND REGULATIONS. MAIR SUGGESTED THAT  
FEDERAL GOVERNMENT AMEND PROPOSED BANK LEGISLATION TO  
COMPEL CHARTERED BANKS TO COMPLY WITH PROVINCIAL LAW WHERE

NO CONFLICT WITH FEDERAL LAW IS INVOLVED. DEFINITION OF WHERE AND WHEN CONFLICT OF FEDERAL AND PROVINCIAL LAWS EXISTS COULD BE TRICKY.

10. BANK OF MONTREAL SPOKESMAN COMPLAINED THAT PRESENT BANKING LEGISLATION PUTS CHARTERED BANKS AT COMPETITIVE DISADVANTAGE VIS A VIS FOREIGN BANKS. SPOKESMAN NOTED UNCLASSIFIED

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THAT WHILE FOREIGN BANKS ARE NOT ALLOWED UNDER CURRENT LEGISLATION TO ACCEPT DEPOSITS, THEY ARE ABLE TO ENGAGE IN COMMERCIAL FINANCING AND ARE NOT SUBJECT TO RESERVE REQUIREMENTS IMPOSED ON CHARTERED BANKS.

11. CAPITAL MARKETS. GOC CDOLS 900 MILLION BOND ISSUE SOLD REASONABLY WELL WITH NO SIGNIFICANT EFFECTS ON BOND MARKET. BANK OF CANADA ABSORBED CDOLS 350 MILLION OF TOTAL. LONG TERM BOND RATES FAIRLY STABLE AFTER RATHER ABRUPT RISE AT TURN OF YEAR. SURVEY BY WOOD GUNDY CONCLUDES THAT LONG TERM RATES WILL PROBABLY RISE NO FURTHER FOR BALANCE OF 1978 AND COULD EVEN DECLINE SOMEWHAT IN SECOND HALF. GENERAL EXPECTATION HAD BEEN THAT LONG TERM RATES WOULD RISE IN 1978, BUT RATES HAVE ALREADY REACHED AVERAGE LEVELS FORECAST FOR YEAR AS WHOLE AND SHOULD NOT, ACCORDING TO WOOD GUNDY SURVEY, SHOW SIGNIFICANT FURTHER INCREASE IN ABSENCE OF UPWARD MOVEMENT OF U.S. RATES.

12. SHORT TERM RATES MOVED DOWNWARD SLIGHTLY IN WEEK ENDING JANUARY 20, AS 90 TREASURY BILLS RATE DECLINED TO 7.13 PERCENT FROM 7.16 PERCENT A WEEK EARLIER. MONEY MARKET INTEREST RATES DECLINED AS WELL.

13. SEASONALLY ADJUSTED GROWTH OF M1 ACCELERATED SHARPLY IN DECEMBER REACHING CDOLS 20.6 BILLION AVERAGE FOR MONTH AND BRINGING MONEY SUPPLY ABOVE CENTER OF BANK OF CANADA TARGET RANGE. M1 HAS INCREASED AT ANNUAL RATE OF 10.6 PERCENT SINCE JUNE, 1977 (BASE FOR TARGET RANGE) AND ROSE 11.9 PERCENT OVER DECEMBER, 1976 LEVEL. FIGURES FOR EARLY JANUARY SHOW REVERSAL OF DECEMBER MOVEMENT WITH M1 DECLINING TO EARLY DECEMBER, 1977 LEVEL.

14. FOREIGN BORROWING. PROVINCE OF MANITOBA REPORTEDLY UNCLASSIFIED

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PLANS TO FLOAT CDOLS 68 MILLION YEN DENOMINATED ISSUE IN JAPAN. EFFECTIVE YIELD EXPECTED TO BE 6.72 PERCENT. PRO-

VINCIAL DEPUTY FINANCE MINISTER CHARLES CURTIS INDICATED THAT RELATIVELY LOW INTEREST RATE GAVE PROVINCE SUBSTANTIAL PROTECTION AGAINST POSSIBLE FURTHER YEN APPRECIATION. HE NOTED THAT BORROWING IN U.S. MARKET WOULD PRESENTLY COST ABOUT 9 PERCENT AND THAT YEN WOULD HAVE TO APPRECIATE 9 - 10 PERCENT TO SWAMP COST ADVANTAGE OF BORROWING IN JAPANESE MARKET.

15. FOREIGN EXCHANGE MARKET. CANADIAN DOLLAR DECLINED SLIGHTLY AGAINST U.S. DOLLAR WEEK ENDING JANUARY 20. AVERAGE EXCHANGE RATE FOR WEEK WAS .9073 COMPARED WITH .9097 PREVIOUS WEEK. DECLINE HAS BEEN ATTRIBUTED TO INCREASED DEMAND FOR U.S. DOLLARS RELATED TO SASKATCHEWAN GOVERNMENT TAKEOVER OF POTASH MINE AND TO FAILURE TO REACH "QUICK AGREEMENT" ON INCREASED SALES OF ALBERTA NATURAL GAS TO U.S. ENDERS

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## Message Attributes

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